

~~SECRET~~

Weekly Contributions
Latin America Branch, OLE, CIA
15 March 1949

B/LA considers particularly important this week: the lack of progress in solving the Peru-Colombia dispute (p. 2), and the easing of tension in Argentina (p. 2).

CURRENT DEVELOPMENTS

GENERAL: Relations between Colombia and Peru remain tense and no immediate solution to the problem — safe-conduct for Haya de la Torre — is expected (p. 2).

SOUTHERN DIVISION: In Paraguay, where the conservative Democratic Colorado Party seems to have gained the upper hand, the political situation is temporarily quiet (p. 2). In Argentina, army pressure on the government has eased as measures are being taken to relieve the economic crisis (p. 2).

SPECIAL SUBJECTS

Reaction to US Non-Participation in the American Committee on Dependent Territories	4
The Current Situation in the Dominican Republic	6
The Current Situation in Chile	8

DOCUMENT NO. 10
NO CHANGE IN CLASS. U
~~X~~ DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: _____
AUTH: HR 70-2
DATE 10-25-79 REVIEWER: 372044

~~SECRET~~

SECRET

Weekly Contributions, B/LA
(CIA Working Paper)

15 March 1949

1. **GENERAL:** No solution is in sight in the impasse between Colombia and Peru regarding the Odría government's refusal to issue a safe-conduct for the APRA leader, Haya de la Torre. Notes exchanged between Colombia and Peru have produced no satisfactory result: Colombia has maintained a "serene" tone in its representations, but Peru has persisted in its refusal because the Odría government believes its continuance depends on its firmness in this question. Consultations among the other countries concerning possible diplomatic means of breaking the stalemate have not been fruitful, because of general reluctance to join in measures which might fail, or could succeed only at the cost of considerable loss of face on the part of Peru. Colombia has considered placing the matter before the COAS, but has so far refrained from such action, which, even though the majority of the countries would almost certainly support Colombia, would probably result in breaking of diplomatic relations by Peru with Colombia. In the meantime, an attack on the Colombian Embassy in Lima where Haya is in asylum, which the Colombians have said they fear and which must be considered a distinct possibility, could easily lead to retaliatory violence if not to outright acts of war.

2. **PARAGUAY:** The conservative Democratic Colorados appear to have gained the upper hand in the recent Colorado Party coalition move which forced the resignation of Provisional President Rolón and placed former Education Minister Molas López in control of the government. Democratic Colorados hold all but three of the cabinet portfolios and control key posts on the party's governing board. Thus far Democratic Colorado leaders have been satisfied with Molas, who, as leader of the militant Guion Rojo opposition faction, was formerly their rival, but pressure is being exerted to oust Interior Minister Liberato Rodríguez, a staunch supporter of Molas. Thus far Molas has remained aloof from these latest party machinations, but Rodríguez, in an effort to protect his position and check the growing power of the Democratic Colorados, has maneuvered the appointment of a reliable Guionista as commander of the infantry. He also controls the Asunción police force and claims support of the Asunción cavalry division. As usual, the balance of power rests with the cavalry, which has not openly committed itself. Much jockeying for position can be expected before the 17 April elections. Although armed conflict is possible, it is not imminent.

3. **ARGENTINA:** Army Pressure Eased; Measures Taken to Relieve Economic Crisis
The military threat to the government's stability has been at least temporarily abated principally by agreement that the government should revise its economic policy and stress improvement

SECRET

~~SECRET~~Weekly Contributions, B/LA
(CIA Working Paper)

15 March 1949

of economic and financial relations with the US. Through Foreign Minister Bramuglia and the new economic directors, the government has made overtures for US assistance in solving its economic and financial difficulties, and significant steps have been taken to modify Argentina's postwar state trading practices. The next few months will probably be a period of probation during which army leaders will determine whether the present administration is capable of implementing the new policies to improve Argentina's economic situation or whether both a new administration and a new policy will be necessary. The terms of the agreement for a trial period apparently afford Perón a relatively free hand in the field of domestic politics. However, it is probable that Defense Minister Sosa Molina's 10 March praise of Señora Perón's social welfare activities was a face-saving gesture to Perón, traded for the latter's agreement that his wife will confine herself to such activities and use her powerful influence with labor to encourage production and discourage demands for wage increases.

Although inflation and the disruption of Argentina's foreign trade, which is unusually important to its economy, have been allowed to develop to the point where it may be impossible to avert an economic debacle, there are some encouraging factors. The new economic administrators evidently will undertake to regain for Argentina its greatest single international economic advantage by adopting a price policy designed to expand the sale of food surpluses on a competitive basis. Furthermore, they have given priority consideration to the restoration of Argentina's previous high international credit standing. Toward accomplishing these objectives they have emphasized the importance of prompt liquidation of Argentina's outstanding obligations to US exporters and banks, sounded out the US on the possibility of a commercial agreement to include a reciprocal credit (Argentine euphemism for a loan), and requested a clear definition of ECA policy with reference to Argentine participation in European trade. A particularly significant and encouraging development in connection with these efforts is the fact that the notoriously anti-US nationalist elements in Argentina evidently will not embarrass the administration in its efforts to carry out the new policies. The gravity of Argentina's present economic situation and the preference of certain of their leaders for US equipment and techniques have induced them to agree for the time being to a policy of expedient collaboration with the US. The next few months will probably prove to be a crucial period both for the stability of the Argentine economy and the pattern of US-Argentine relations.

~~SECRET~~

~~SECRET~~

Weekly Contributions, B/LA
(CIA Working Paper)
Article 17-49

15 March 1949

Reaction to US Non-Participation
in the American Committee on Dependent Territories

The US announcement of its decision not to attend the Havana meeting of the committee (scheduled 15 March) has received little official criticism in the other American republics to date but provides a possible propaganda theme for anti-US groups who may be expected to make the most of it in press, radio, and public demonstrations.

The US stated that it would not attend because (1) the committee's action might endanger principles embodied in UN and inter-American agreements, and (2) colonial problems should be settled under provisions of the UN Charter. It was suggested, therefore, that the other American republics consider the committee a technical body and reserve their decision until committee reports were transmitted by the COAS to its members, at which time, it was indicated, the US might also express its views. The only official criticism of the US statement, thus far, has come from Guatemala and -- in lesser degree -- from Mexico. Six COAS members (Brazil, Bolivia, Nicaragua, Dominican Republic, Chile, and Uruguay) supported the US position from the beginning and five of these have reiterated their intention to abstain from attendance at the meeting. Only one of the six -- Uruguay -- appointed its delegate after the US statement. Among the remaining countries, the degree of enthusiasm varies widely and a number have indicated their sympathetic understanding of the US position.

Only Argentina and Guatemala are actively asserting claims against European territories in this hemisphere. Argentine Foreign Office officials at various times have indicated that their government would press its legitimate claims but would not make difficulties for the US. Guatemala -- the prime mover, because of the long-standing Belize controversy, for inter-American action regarding colonial territories -- will probably be the most vociferous in favor of the elimination of the colonial system in the Americas. Mexico may in the meeting give limited support to the Guatemalan position, as she also claims rights to part of the Belize territory in accordance with "historical and juridical precedents".

The possible propaganda use of the fact of US non-attendance at the meeting is indicated by the comments of the Guatemalan Foreign Minister to the effect that the US was showing the same attitude toward the will of the majority in the OAS that Russia revealed by its frequent vetoes in the UN. Since seventeen nations at Bogotá voted in favor of holding

~~SECRET~~

~~SECRET~~

Weekly Contributions, B/LA
(CIA Working Paper)
Article 10-49

15 March 1949

the meeting at Havana, the US refusal to attend places it in a minority position. Therefore, anti-US groups in Latin America -- particularly the Communists -- may be expected to exploit the situation for all it is worth as a propaganda theme, playing up the concept that the majority rules in OAS affairs only when the US favors the majority position.

~~SECRET~~

SECRET

Weekly Contributions, B/LA
(CIA Working Paper)
Situation Memorandum 12-49

15 March 1949

The Current Situation in the Dominican Republic

President Trujillo's regime is stable and faces no serious economic difficulties. Internationally, however, the Trujillo "dictatorship", because of the Dominican attempt to establish military superiority in the area and because of the deep hostility of the "democratic" forces to Trujillo's governmental methods, exerts a divisive influence in Caribbean power politics. Consequently, even though Trujillo's own international policy is generally pro-US, the intra-Caribbean rivalries resulting from opposition to him adversely affect US security interests involving the solidarity of the American Republics.

Though the Dominican Republic faces no serious economic difficulties, the government is confronted with financial problems arising largely from its determination to maintain arms superiority over the Caribbean "democracies". Governmental revenues have decreased because of diminished business activity and a decline in the price of the principal export products. Yet the government's plan for the 1949 budget includes a military and police appropriation of \$18.5 million, representing more than one-fourth of the total ordinary budget expenses (as compared to 17.4 per cent in Cuba), and there is in addition a special \$25 million public works program which will include large expenditures for military construction. Total anticipated 1949 expenditures for ordinary and special programs exceed those for 1948 by 57 per cent. In order to meet ordinary budget expenses it has been necessary to levy additional export taxes whose principal impact is on the country's major export industries -- sugar, cacao, coffee, and tobacco -- in addition to new taxes of other types. The source of funds for the special \$25 million public works program has not been stated; American sources in the Dominican Republic indicate that the special expenditure program may force even higher taxes.

Tax increases press most heavily on agriculture since export taxes, which are the government's major source of revenue, result in decreases in the net profit of agricultural producers. Since profits have been high and wages low, especially in the sugar industry, a decrease in profits may not be a great hardship to the producers, though a substantial further increase in taxes might tend to discourage production.

The military superiority of the Dominican Republic acts as a potent psychological factor in Caribbean power politics. Trujillo now has the largest and most modern navy and air force in the Caribbean. Current activities include continued improvement of equipment through purchases

SECRET

SECRET

Weekly Contributions, B/LA
(CIA Working Paper)
Situation Memorandum 12-49

15 March 1949

abroad and the importation of foreign technicians to reinforce the air force and navy and to assist in the training program of these services, the manpower of which is to be increased substantially during 1949.

The nature and practices of the Trujillo government have not only produced a substantial and energetic body of Dominican exiles but have also aroused in the "democratic" countries distrust and fear that are a serious divisive factor in Caribbean politics. Though Trujillo does not appear either to fear prompt attack from abroad or to plan immediate aggression on his own part, he undoubtedly considers it necessary to maintain a considerable armed force as a precaution against future attempts by Dominican exiles aided by other "democratic" forces in the Caribbean. These two groups make no secret of their intention to work, directly or indirectly, as circumstances permit, for the overthrow of the Trujillo "dictatorship". Recent conflict between Trujillo and his adversaries has been characterized chiefly by Trujillo's use of the radio and press in opposition to the propaganda measures of the "democracies". It is also probable, though by no means yet proved, that Trujillo was involved in a recent plot to overthrow the Estimé regime in Haiti.

Trujillo continues his general support of the US internationally, and has indicated the Dominican Republic's agreement with the US position regarding the North Atlantic Pact. The government has also indicated officially that it shares US concern over the wave of uprisings in Latin America and the US desire to strengthen democratic and constitutional governments. Despite the Dominican Republic's support of the US internationally, the vigorous opposition to Trujillo's regime by the Caribbean "democracies" creates a rivalry that impairs those US security interests that are dependent on the solidarity of the American Republics.

SECRET

~~SECRET~~

Weekly Contributions, B/LA
(CIA Working Paper)
Situation Memorandum 13-49

15 March 1949

The Current Situation in Chile

(Summary: The Chilean administration's recent election victory is expected to guarantee continuance of major policies. Though overt Communist activity has been restrained, underground operation may increase and the government may encounter increasing difficulty in carrying out the anti-Communist program. Labor relations may cause the government more difficulty than was the case during the past year. Some dissatisfaction exists in the armed services. Although serious economic problems remain to be solved, considerable progress was made during the year, and there is reasonable hope for further progress. In international relations, Chile continues to be sensitive to actions of the US and other Latin American states.)

Although the present government of Chile lacks solid political support for its legislative program, it has emerged from the 6 March congressional elections with sufficient prestige to enable President González Videla to continue during the foreseeable future his opportunistic balancing of disparate forces united in their opposition to Communism. The administration can be expected to direct major effort toward strengthening its precarious political base through encouraging non-Communist labor organizations, passage of much-needed social legislation, easing of incipient disaffection in the armed forces and continuing the ambitious program for the improvement of economic conditions. In the international field the Chilean Government will probably continue its criticism of military accession to political power in Latin America, its cultivation of close political and economic relations with the US and its vigorous assertion of the Chilean position in the UN and in the Antarctic.

The Communist Party, suppressed under the Special Powers Law and outlawed by the Defense of Democracy Law of 7 September 1948, is reportedly still a force to be reckoned with, particularly in labor where it has no effective rival. The Communists have been able to retain this position in labor due to the inability of the other political parties to fill the gap or the absence of labor leaders able to form a strong non-political, non-Communist organization. Latent ability of the Communists to resume their openly aggressive tactics if given the opportunity has been evidenced during the recent period of suspension of the President's Special Powers in an attempted demonstration in Santiago, a concerted return of exiles to labor centers, and in the determined effort of released Communist mayors to resume their ~~25941X7~~ underground activities designed to strengthen the party continue, [REDACTED] with an intensified drive for supporters from all political parties and especially among Chile's impoverished working population. The return of Communist Deputy Contreras

~~SECRET~~

SECRET

Weekly Contributions, B/LA
(CIA Working Paper)
Situation Memorandum 13-49

15 March 1949

Tapia from a visit to Prague and Moscow, and reports of Moscow displeasure over Chilean Communist Party inefficiency may presage an internal reorganization and increased activity. It is probable that such activity will be conducted underground or be directed within the bounds of law to influence labor and the ever-present dissidents in all political parties.

The labor situation during 1948 was quiet after the turbulence of 1947; however, this peace on which the administration depends for carrying out its plan to increase industrial production is somewhat precarious. The absence of serious strikes and labor disturbances is attributable to the government's success, by virtue of the Special Powers Law and the Defense of Democracy Law, in obtaining settlements of disputes before they reached the strike stage. Labor's lack of well-organized militant leadership since the Communist leaders were exiled has also contributed to recent tranquility in industrial relations. Vigorous opposition both by anti-government forces and some elements in the pro-government parties to the President's Special Powers and the Defense of Democracy Law will tend to undermine this apparently harmonious pattern of labor relations. It may further be upset by Communist exploitation of labor discontent with continuing high living costs and acute housing shortages.

Possible disaffection in the armed forces continues to be of concern to the administration. Although the pay increase and bonus recently granted by the Congress may appease the military services for the time being, basic causes of dissatisfaction persist in lack of equipment, which threatens to ground the air force by April, and in the onerous duties imposed under the Special Powers Law.

The Chilean administration has accomplished very creditable economic improvement during the past year. This has been achieved largely by virtue of efficient economic administration, substantial ECA purchases, and increased foreign private investment, and has resulted in a balanced budget, a favorable balance of trade, and improved international credit standing. It is true that all concern for Chile's economic future cannot be dismissed; certain serious economic problems remain, such as: inflation reflected in over-extended credit and high cost of living; critical shortage of low-cost housing; difficulties in marketing surpluses including coal and agricultural products; and inadequate foreign private investment in relation to the scale of the industrial development program. Recent progress, however, justifies estimating that Chile's chances for continued economic improvement are relatively good if major political complications do not occur. President González has promised to secure welfare legislation to relieve pressures occasioned by the high cost of living and shortage of housing; his program also calls for legislative

SECRET

~~SECRET~~

Weekly Contributions, B/LA
(CIA Working Paper)
Situation Memorandum 13-49

15 March 1949

action to encourage foreign investment — particularly US investment — and technical aid as proposed by President Truman in his inaugural address.

Chilean relations with other Latin American states have been disturbed during recent months. Relations with Venezuela, broken when Chile referred the matter of a safe-conduct for ex-President Betancourt to the OAS, have not been resumed. Tension between Chile and Argentina has eased somewhat with renewed avowals of friendship ending recriminations over alleged Argentine participation in a coup attempted in Chile and with Perón's explanation of his statement concerning a seaport for Bolivia which had proved offensive to Chile. Continued sensitivity to Argentine moves, to any tendency toward military governments in Latin America and to US policy in relation to Latin America can be expected.

~~SECRET~~